

COMMITTEE ON LEGISLATIVE RESEARCH  
 OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 4581-01  
Bill No.: HB 1930  
Subject: Science and Technology; State Departments; State Employees.  
Type: Original  
Date: February 25, 2002

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON STATE FUNDS</b>			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Various State Funds *	(Unknown)	(Unknown)	(Unknown)
<b>Total Estimated Net Effect on <u>All</u> State Funds *</b>	<b>(Unknown)</b>	<b>(Unknown)</b>	<b>(Unknown)</b>

\* Could exceed \$100,000 in any given year.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Various Funds	(Unknown)	(Unknown)	(Unknown)
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>(Unknown)</b>	<b>(Unknown)</b>	<b>(Unknown)</b>

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 8 pages.

**FISCAL ANALYSIS**

### ASSUMPTION

Officials from the **Department of Revenue (DOR)** state this proposal limits DOR from entering into electronic commerce, if anyone in the private sector already performs services that are the same, similar to or overlapping in the area of information technology-based services.

DOR states the definition of electronic commerce services is very broad and the example given can be interpreted to mean that the government could not offer its goods or services by developing a computer network that hooks to the Internet, if similar or overlapping services are being offered to the general public by anyone in the private sector without going through the notice, procedure and legal challenge provisions proposed in this bill.

In addition, there is no provision that allows the government to avoid legal challenge by providing data to show the system proposed by the government would be less costly and more efficient in interfacing with the government systems.

This could impact DOR's current electronic services such as notice of lien filings, sale of records, motor vehicle titling and registration renewals and filing of tax returns. The sale of information electronically is already available through Equifax, Polk etc. in the private sector. It could severely limit the government's ability to expand its services and goods and methods of delivery in electronic format and to control the cost of such development for both the department and the citizen.

This proposal has the potential to significantly increase the cost of services for BOTH state departments and Missouri citizens. It does not allow departments to review comprehensive costs, including but not limited to the development, testing, operational, maintenance and support of such systems to determine and choose the most cost effective approach of providing these services, regardless if the service is already provided by a private entity.

DOR cannot determine the cost of this proposal; however, it is estimated that it would be an ***Unknown decrease in revenues.***

Officials from the **Department of Elementary and Secondary Education (DES)** state the proposal would prohibit all government agencies from starting or carrying-on any electronic commerce service if that service is provided by the public sector. The implications of the proposal are far reaching and could potentially result in catastrophic costs for the department and local school districts.

### ASSUMPTION (continued)

DES states the proposal would give rise to costs in many different areas and would cause

substantial changes in procedures. The following list summarizes several of those areas and procedures, but is not meant to be all-inclusive or limited to those items presented:

- Would limit sharing of components within the state or with other states (i.e. DES's payment system could potentially lose compatibility with the statewide accounting system....not to mention the state could lose its ability to operate the statewide accounting system);
- Maintenance costs would rise significantly;
- Up-front purchase costs (i.e. new equipment and software could be required to ""run"" vendors' product);
- Licensing costs/issues (i.e. each user charged licensing fee);
- Loss of control over source of systems; no customization (i.e. changes would have to be performed by the vendor at cost and at the mercy of the vendor);
- Reliance on outside support; loss of control;
- No longer public domain status; could not provide to other agencies (example: DES's consolidated grants process is public domain and may be used by states free of charge);
- No assurance that vendor will be in business over extended period;
- No assurance that software will remain supported over extended period; and
- Continuous updates to software at cost; vendors will not support older versions.

In summary, DES assumes this proposal has the potential to burden state and local agencies with millions of dollars in new costs.

Officials from the **Office of Administration - Purchasing and Materials Management (DPMM)** stated this proposal would require extensive research and cost analysis by their buyers before providing duplicate or competing electronic commerce services.

DPMM stated that to ensure that all requirements of this legislation are met, they would need one additional Buyer III position (at \$37,488). The new position would prepare the finding of fact and conclusions of law describing the reasons why it is necessary and in the public interest to provide the services. Also the Buyer III would prepare the annual report of the electronic services provided. DPMM estimates the annual cost for this position to be roughly \$55,000 per year.

#### ASSUMPTION (continued)

In response to similar legislation from this year, officials from the **Department of Natural Resources (DNR)** stated it is unclear what fiscal impact would result from this proposal because

of the following unknowns:

1. Difficulty of determining whether or not there is an existing or new business that provides electronic commerce services to the public;
2. The frequency of and resources needed to assimilate the public notices which will include the proposed findings of fact and conclusions of law describing the reasons why DNR believes it is necessary and in the public interest to provide duplicative or competing electronic commerce services. DNR will be required to specify the initial and total lifecycle costs of the proposed services, the individual per taxpayer cost and per user cost of such services and an economic impact analysis demonstrating that the offering of proposed services by government will not be anti-competitive in its effect on the existing industry and will not adversely impact or distort the private sector marketplace for the same or similar services;
3. The frequency of and resources needed to address potential judicial challenges brought against the department by providers of electronic commerce services is unknown; and
4. The resources needed to prepare and publish an annual report on the department's electronic services.

In response to similar legislation from this year, officials from the **Department of Economic Development (DED)** assumed they would have to assess or hire a private consultant to determine if any programs are in competition with or duplicate any private sector offerings. If there was competition or duplication, DED would have to determine whether to fill out the necessary paper work to continue to compete. This assessment may need to be done by or in consult with a private sector consultant. If programs are eliminated, there could be a positive impact on the state's cost over the long run, after incurring initial costs of program evaluation.

DED assumed there are some current electronic offerings that compete with the private sector. DED also assumed there would need to be an evaluation of all electronic offerings at an unknown expense. DED assumed this proposal could result in an unknown amount of savings or cost to General Revenue and Federal funds.

Officials from the **State Treasurer's Office (STO)** assume that the definition of "electronic commerce" is to mean all government solutions, applications and systems. Therefore STO assumes this proposal would have a major negative fiscal impact on their office and other state agencies.

#### ASSUMPTION (continued)

Officials from the **Department of Conservation (MDC)** assumes the proposed legislation could have significant fiscal impact because of MDC sales of consumer items over the internet. The amount of impact is unknown.

Officials from the **Department of Mental Health (DMH)** state the impact is potentially great for any e-government or e-commerce is being done or that would be done by a department of the State. Many current government services are similar to or overlapping with the private sector. The burden put on any agency that considers providing any such service is overwhelming. It includes public hearings, cost analyses, and economic impact analyses that are prohibitive. DMH states the fiscal impact to their agency is unknown. Almost all of the current and planned public web presence for the State could be challenged. DMH states they will soon enable their providers to bill Medicaid and other third-party insurers through their on-line system as a better way to provide the services the department is charged with providing. This may compel DMH to contract for services that it would have been able to create itself.

Officials from the **Department of Insurance (INS)** state they currently have systems that might meet the definition of electronic commerce contained in the bill, including several promoted by the National Association of Insurance Commissioners for efficiency and uniform regulation of the insurance industry. It is unknown if these systems would be competing with private sector providers. INS is unable to project the costs to the department if they were not allowed to use these systems and it would likely create additional costs for the insurance industry by changing the electronic processes.

Officials from the **Department of Corrections (DOC)** state they interpret the proposal to prohibit the state from doing things like selling network services or providing internet access. If this is indeed the intent of the bill, there is no fiscal impact for DOC.

Officials from **Truman State University** state they were unable to determine if the proposal would have an impact on their MOREnet system.

Officials from the **Missouri Gaming Commission, Department of Higher Education, Department of Social Services, Office of the State Courts Administrator, Office of Administration - Divisions of Information Services and Budget and Planning, Secretary of State's Office, State Auditor's Office, Office of the Governor, Office of the Lieutenant Governor, Missouri Consolidated Health Care Plan, State Tax Commission, Department of Labor and Industrial Relations, Missouri House of Representatives, Central Missouri State University, Linn State Tech, Southwest Missouri State University and the Department of Public Safety - Divisions of the Director's Office, Missouri Highway Patrol, Capitol Police, Liquor Control, Office of the**

ASSUMPTION (continued)

**Adjutant General, State Emergency Management Agency, Veterans' Commission, Water Patrol, Highway Safety** each state this proposal would not fiscally impact their respective agencies.

**Oversight** has reflected the fiscal impact of this proposal in three areas described by various state

agencies;

1. The potential loss in revenue from the state agencies not being allowed to offer electronic commerce to citizens/customers;
2. The potential cost of performing the required economic impact analysis, conducting public hearings, submitting the required annual reports, and defending against the potential judicial challenges; and
3. The potential additional costs to be borne by state agencies if they are forced to have the private sector engage in many of their electronic commerce services to the public.

Oversight has no basis to determine the amount of impact to state agencies, so will use "Unknown" to represent the potential. In this proposal, the term "Government Agency" is defined as "the state, and any unit of state government", therefore Oversight assumes this proposal would not directly impact local governments.

<u>FISCAL IMPACT - State Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
<b>VARIOUS STATE FUNDS</b>			
<u>Loss</u> - potential loss in revenue	(Unknown)	(Unknown)	(Unknown)
<u>Costs</u> - to various state agencies for economic impact analysis, public hearings, potential judicial challenges and annual reports	(Unknown)	(Unknown)	(Unknown)
<u>Costs</u> - potential increased costs of performing services	(Unknown)	(Unknown)	(Unknown)
<b>ESTIMATED NET EFFECT TO VARIOUS STATE FUNDS</b>	<b><u>(UNKNOWN)</u></b>	<b><u>(UNKNOWN)</u></b>	<b><u>(UNKNOWN)</u></b>
<u>FISCAL IMPACT - Local Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>

FISCAL IMPACT - Small Business

This proposal could positively impact small businesses the are engaged in electric commerce

RS:LR:OD (12/00)

services which compete with services provided by the state government.

### DESCRIPTION

This proposal creates the Electronic Government Services Act. The proposal prohibits any government agency from providing electronic commerce services if the services are being provided by the private sector. A government agency can provide duplicate or competing electronic services if public notice and the opportunity for public comment are provided. Disclosure requirements of the governmental agency are provided in the proposal.

If a government agency elects to provide electronic services in a jurisdiction where the private sector delivers the same services, the government agency is to report annually the amount, source, and cost of working capital utilized for the services.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

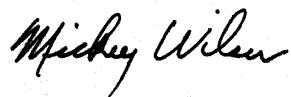
### SOURCES OF INFORMATION

Department of Higher Education  
State Courts Administrator  
Department of Economic Development  
Department of Elementary and Secondary Education  
Department of Mental Health  
Department of Natural Resources  
Department of Corrections  
Gamming Commission  
Department of Labor and Industrial Relations

### ASSUMPTION (continued)

Department of Revenue  
Department of Social Services  
Department of Public Safety  
Governor's Office  
Missouri House of Representatives  
Department of Insurance  
Department of Conservation  
Office of Administration  
Lieutenant Governor's Office  
State Auditors Office

Secretary of State's Office  
Missouri Tax Commission  
Central Missouri State University  
Truman State University  
State Treasurer's Office  
Missouri Consolidated Health Care Plan  
Linn State Tech.  
Southwest Missouri State University

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA  
Acting Director  
February 25, 2002